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United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350

September 25, 2001

The Honorable Charles O. Rossotti
Commissioner
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, DC 20224

Mr. Joseph Kehoe
Commissioner
Small Business/Self-Employed Division
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, DC 20224

Dear Commissioners Rossotti and Kehoe:

At my request, the Treasury Inspector General for Tax Administration (TIGTA) performed a review of the Internal Revenue Service' (IRS) Electronic Tax Law Assistance (ETLA) program as a follow up to its initial review in September 2000. TIGTA's Management Advisory Report, entitled "The Electronic Tax Law Assistance Program Outperformed Other Free Internet Web Sites in Answering Small Business and Self-Employment Tax Law Questions" (Reference Number: 2001-30-155), again tested the accuracy and timeliness of IRS' response to tax questions that small business owners submitted through the ETLA program.

The results of this year's review, in part, were pleasantly surprising. TIGTA found that the IRS responded to 98% of the questions submitted on the same day or the following business day. This number is a substantial improvement over the 68% of businesses last year that received a response within the IRS' goal of responding within two business days, and it even surpassed the timeliness of the two commercial web sites sampled. I commend you for this improvement.

Unfortunately, TIGTA's positive findings did not extend to the accuracy rate of the IRS' responses to small business tax inquiries through ETLA. To my continued alarm, the TIGTA review found that out of the sample of questions concerning small business tax issues, the IRS provided the small business taxpayer with the correct answer only 45% of the time, which is a decline from the 54% accuracy rate in 2000. On a positive note, the current IRS rate is well above the 16% accuracy rate that TIGTA found among the commercial Internet web sites sampled.

The Honorable Charles O. Rossotti
Mr. Joseph Kehoe
Page 2

While I recognize that TIGTA's review is based on a small sample of more difficult questions than the IRS usually receives in its toll-free call sites, the falling accuracy rate is extremely troubling and undermines the confidence of small business taxpayers in the IRS. I am particularly concerned by TIGTA's findings that 63% of the incorrect answers are the result of IRS employees not appropriately researching the issue. Moreover, of the questions that were posed both last year and this year, TIGTA found that some questions were answered correctly in one year but not the other. With the enormous complexities of our current tax code, it is not unreasonable for small business taxpayers to expect that the IRS will be able to give them the consistently correct answer to their tax questions.

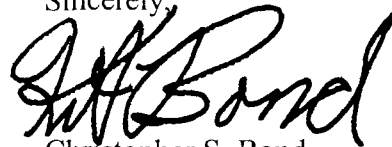
With the ETLA program continuing to grow in popularity, a 45% accuracy rate puts small businesses and self-employed taxpayers at substantial risk if they call on the IRS for help in complying with the tax law. A small business owner who relies on erroneous tax advice from the IRS can still be subject to penalties and interest for an incorrect return.

Once again, I urgently request that you take steps to improve the IRS' accuracy rate with respect to small business tax questions. As the new Ranking Member of the Senate Committee on Small Business and Entrepreneurship, I will continue my efforts in Congress to address the complexity of our current tax system, which is at the root of many of these problems. While we work to enact a simpler, fairer, and flatter tax code, the IRS must administer the current system in an accurate and consistent manner. A significant part of that responsibility includes giving taxpayers correct answers to their questions.

You both continue to make significant headway in modernizing the IRS to meet its dual mission of collecting taxes and providing top-quality customer service, and I strongly support and applaud your efforts. I hope the TIGTA's follow-on review of the ETLA Program will highlight an area in need of additional attention.

Thank you for looking into this matter and taking appropriate action to ensure that small business taxpayers can confidently rely on the IRS when seeking assistance with their tax returns. If you have any questions or would like to discuss this matter in greater detail, please do not hesitate to contact me or have your staff contact Mark Warren, the Committee's Tax Counsel, at 202/224-

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Bond", written in a cursive style.

Christopher S. Bond
Ranking Member